

## Message Text

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PAGE 01 STATE 179420  
ORIGIN TRSE-00

INFO OCT-01 ISO-00 AF-10 ARA-14 EA-09 EUR-12 NEA-10  
SIG-02 MMO-04 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01  
PA-02 PRS-01 L-03 H-02 /149 R

TREASURY

DRAFTED BY TREAS:OMACKOUR:SMCP  
APPROVED BY EB/IFD:RJRYAN  
TREAS:FLWIDMAN

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R 301710Z JUL 77  
FM SECSTATE WASHDC  
TO ALL DIPLOMATIC AND CONSULAR POSTS

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INFORM CONSULS

E.O. 11652: N/A

TAGS: EFIN

SUBJECT: USG OFFICIAL COMMENT ON DOLLAR EXCHANGE RATE  
DEVELOPMENTS

FOLLOWING ARE TEXTS OF OFFICIAL PUBLIC COMMENTS WITH  
RESPECT TO US OFFICIAL ATTITUDE TOWARDS DOLLAR EXCHANGE  
DEVELOPMENTS. THEY ARE TO BE UTILIZED ON IF ASKED BASIS  
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PAGE 02 STATE 179420

WITHOUT ANY FURTHER ELABORATION.

1. TREASURY DEPARTMENT OFFICIAL SPOKESMAN JULY 27:

QUOTE--THERE IS NO DISAGREEMENT BETWEEN THE ADMINISTRA-  
TION AND DR. BURNS ON US EXCHANGE RATE POLICIES. WE SUPPORT  
A FLEXIBLE EXCHANGE RATE SYSTEM, IN WHICH DOLLAR'S VALUE  
IS DETERMINED FUNDAMENTALLY BY UNDERLINING ECONOMIC AND  
FINANCIAL CONDITIONS. MR. BURNS HAS STRESSED THE NEED TO

PROTECT THE INTEGRITY OF THE DOLLAR FOR INTERNATIONAL AS WELL AS DOMESTIC REASONS. THE WAY TO ACCOMPLISH THAT AND

MAINTAIN THE VALUE OF OUR CURRENCY AT HOME AND ABROAD, IS TO MAINTAIN A STRONG STABLE NON-INFLATIONARY ECONOMY. IT HAS BEEN AND CONTINUES TO BE THE FOCUS OF OUR EFFORTS. UNQUOTE.

2. TREASURY SECRETARY BLUMENTHAL, SPEECH IN LOUISVILLE JULY 26. IN THE DAYS OF COMMODITY MONEY, PEOPLE BELIEVED THAT THE STRENGTH OF A CURRENCY DEPENDED ON THE COUNTRY'S STOCK OF GOLD OR OTHER MONETARY COMMODITY. BUT WE UNDERSTAND TODAY THAT THE VALUE OF OUR CURRENCY, AT HOME AND INTERNATIONALLY, DEPENDS NOT ON OUR HOLDINGS OF THOSE METALS, BUT ON OUR FUNDAMENTAL ECONOMIC PERFORMANCE. THAT MEANS WE MUST CONCENTRATE ON THOSE FUNDAMENTALS IN ORDER TO ASSURE A STRONG DOLLAR--AND A STRONG DOLLAR IS OF MAJOR IMPORTANCE NOT ONLY TO THE UNITED STATES BUT ALSO TO THE REST OF THE WORLD. BY CONCENTRATING ON FUNDAMENTALS, I MEAN THAT THE WAY TO ASSURE THE STRENGTH OF OUR CURRENCY, AND THE ONLY WAY TO ASSURE A STRONGER DOLLAR, BOTH AT HOME AND IN INTERNATIONAL MONEY MARKETS, IS BY FOLLOWING SENSIBLE ECONOMIC POLICIES, BY KEEPING INFLATION UNDER CONTROL AND INTRODUCING AN EFFECTIVE PROGRAM FOR CONSERVING ENERGY AND BY IMPROVING THE VITALITY AND EFFICIENCY OF OUR  
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PAGE 03 STATE 179420

ECONOMY. THE CARTER ADMINISTRATION IS FOLLOWING THIS APPROACH, AND I AM HAPPY TO REPORT THAT RECENT INDICATORS SHOW CONTINUED AND WELCOME PROGRESS. IN PARTICULAR:

-- OUR PERFORMANCE ON INFLATION--WHILE NOT AS GOOD AS WE WOULD LIKE, AND A KEY TARGET OF ADMINISTRATION POLICY--IS SUBSTANTIALLY BETTER THAN THAT OF MOST OF OUR TRADING PARTNERS.

-- THE ECONOMY IS EXPECTED TO GROW AT A REASONABLE RATE IN THE SECOND HALF OF THIS YEAR AND CARRYING THROUGH 1978.

-- THE UNEMPLOYMENT RATE WAS PULLED DOWN BY NEARLY A FULL PERCENTAGE POINT SINCE LAST NOVEMBER, AND EMPLOYMENT HAS MADE STRONG GAINS.

-- INDUSTRIAL PRODUCTION HAS CONTINUED TO SCORE LARGE INCREASES, AND CORPORATE EARNINGS HAVE BEEN RISING. THE OUTLOOK FOR BUSINESS FIXED INVESTMENT IS GOOD AND THE PROSPECTS FOR HOUSING AND INVENTORY INVESTMENT ARE PARTICULARLY STRONG.

WE ARE OF COURSE CONCERNED ABOUT THE INCREASE THIS YEAR IN

OUR TRADE BALANCE DEFICIT AND, IN PARTICULAR, THE VERY LARGE DEFICIT OF 2.8 BILLION DOL. REGISTERED IN THE MONTH OF JUNE. CLEARLY, WE CANNOT BE INDIFFERENT TO THESE LARGE NUMBERS AND WE ARE CAREFULLY WATCHING DEVELOPMENTS ON A CONTINUOUS BASIS.

THE FIGURES SHOW THAT A NUMBER OF FACTORS ARE RESPONSIBLE. BY FAR, THE GREATEST AND MOST SERIOUS CAUSE OF OUR BURGEONING DEFICIT IS THE INCREASED IMPORTS OF ENERGY. OUT OF INCREASED IMPORTS IN JUNE OVER MAY OF 1.3 BILLION DOLLARS, FOR EXAMPLE, OVER 800 MILLION DOL. WENT FOR MORE ENERGY IMPORTS ALONE. FOR THE YEAR AS A WHOLE, UNCLASSIFIED

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PAGE 04 STATE 179420

THE PROPORTIONS ARE ABOUT THE SAME.

THIS UNDERSCORES THE GREAT IMPORTANCE OF THE ENERGY PROGRAM AND OF THE NEED FOR ALL OF US TO CONSERVE ENERGY AND REDUCE OUR DEPENDENCE ON FOREIGN OIL. THIS IS THE SINGLE MOST IMPORTANT STEP WE CAN TAKE TO DEAL WITH OUR TRADE IMBALANCE PROBLEM.

APART FROM ENERGY, ANOTHER REASON WHY OUR TRADE DEFICIT HAS BEEN INCREASING IS SIMPLY THE FACT THAT THE US ECONOMY HAS BEEN GROWING FASTER THAN THAT OF MANY OTHER COUNTRIES. MORE GROWTH IS ALWAYS ACCOMPANIED BY HIGHER IMPORTS. WHILE OUR TRADITIONAL EXPORT MARKETS ARE LAGGING BEHIND IN DEMAND FOR OUR PRODUCTS, THIS IS A TEMPORARY SITUATION WHICH SHOULD CORRECT ITSELF AS ECONOMIC RECOVERY IN THE REST OF THE WORLD PROCEEDS.

WE CANNOT BE INDIFFERENT TO A CONTINUING LARGE DEFICIT IN THE BALANCE OF TRADE AND WE WILL NOT BE. AT THE SAME TIME, WE MUST NOT FORGET THAT THE US ECONOMY IS VIGOROUS, HEALTHY AND GROWING.

THIS STRENGTH OF OUR ECONOMY IS IMPORTANT NOT ONLY TO US BUT TO THE ENTIRE WORLD. I AM OPTIMISTIC ABOUT THE ECONOMIC PROSPECTS FOR OUR COUNTRY AND I HAVE NO DOUBT THAT AMERICANS AND EVERYONE THROUGHOUT THE WORLD HAVE REASON TO BE CONFIDENT ABOUT THE SOUNDNESS OF OUR ECONOMIC PERFORMANCE.

3. EXTRACT FROM STATEMENT OF CHAIRMAN BURNS BEFORE HOUSE BANKING AND CURRENCY COMMITTEE (REUSS) JULY 29. IN RECENT WEEKS, THE DOLLAR--WHICH HAD MAINTAINED REMARKABLE STABILITY AGAINST THE AVERAGE OF FOREIGN CURRENCIES SINCE UNCLASSIFIED

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PAGE 05 STATE 179420

EARLY LAST YEAR--HAS EXPERIENCED LIMITED BUT CONSPICUOUS DEPRECIATION. THIS IS A MATTER THAT NO ONE IN OUR GOVERNMENT CAN OR DOES TAKE LIGHTLY: FIRST, BECAUSE ANY MATERIAL DEPRECIATION OF THE DOLLAR AGAINST FOREIGN CURRENCIES WOULD HAVE SOME ADVERSE EFFECT ON OUR DOMESTIC PRICE LEVEL; SECOND, BECAUSE THE DOLLAR IS A STORE OF VALUE FOR MUCH OF THE REST OF THE WORLD. THE FACT THAT THE DOLLAR HAS WEAKENED EVEN IN RELATION TO THE CURRENCIES OF COUNTRIES EXPERIENCING MUCH GREATER INFLATION THAN THE UNITED STATES IS A REMINDER THAT MARKET PSYCHOLOGY HAS A WAY OF

MAGNIFYING OR DISTORTING FOR A TIME UNDERLYING TRENDS. A SOUND DOLLAR IS ESSENTIAL TO OUR ECONOMIC FUTURE AND EVERYONE WITH MAJOR FINANCIAL RESPONSIBILITY IN OUR GOVERNMENT IS KEENLY AWARE OF THAT.

4. IN Q AND A PERIOD AT JULY 29 REUSS COMMITTEE HEARING REUTERS REPORTS CHAIRMAN BURNS SAYING FOLLOWING:

THE CENTRAL BANK HAS INTERVENED TO PROTECT THE DOLLAR ONLY MINIMALLY. ANY MOVES THE FED HAS MADE TO PROTECT THE DOLLAR HAVE BEEN WITH THE SUPPORT OF THE TREASURY, AND THERE IS NO DIFFERENCE BETWEEN THE BANK AND THE TREASURY OVER A SOUND DOLLAR. VANCE

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## Message Attributes

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